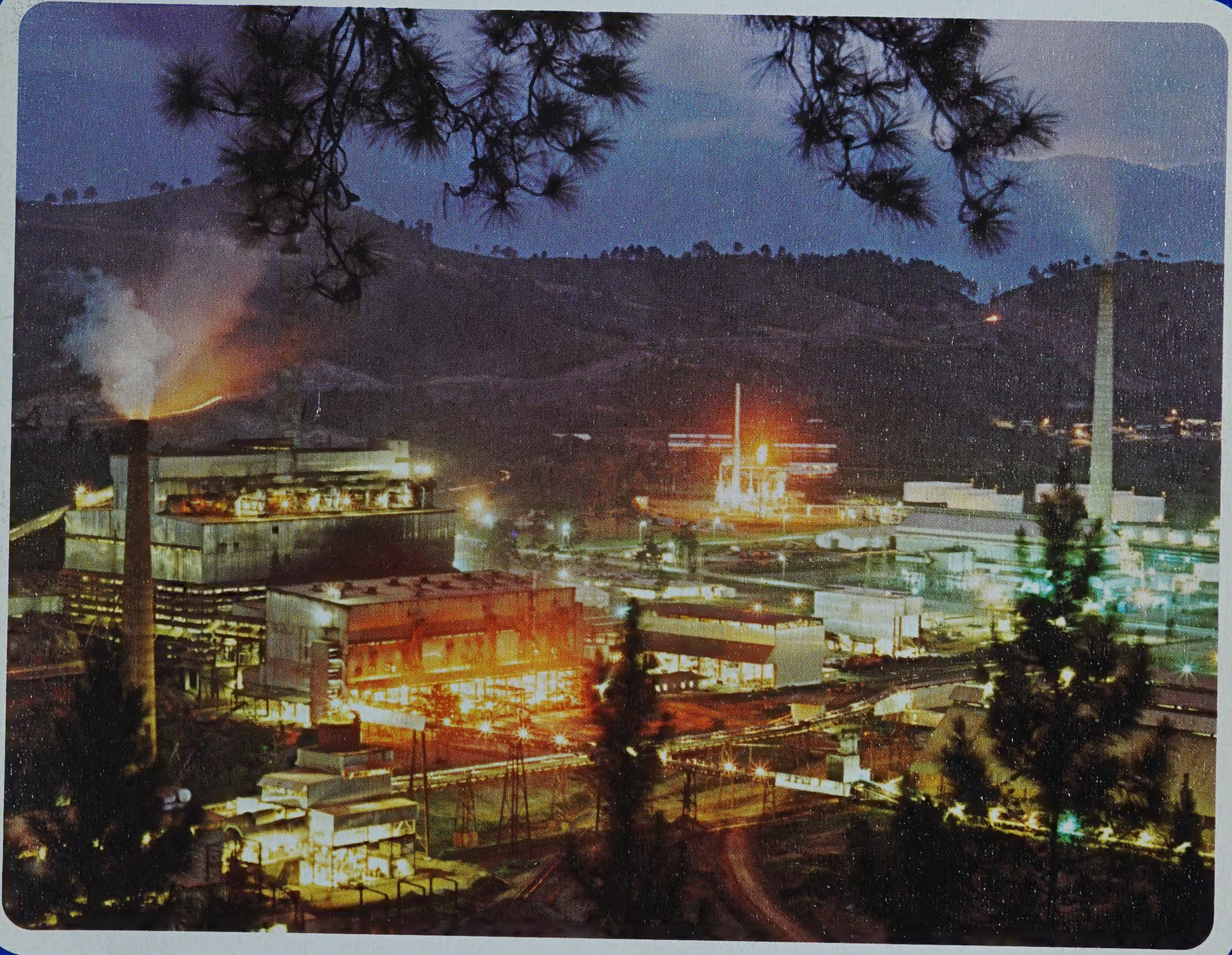
FALCONBRIDGE
NICKEL MINES LIMITED



Annual Report 1972

FALCONBRIDGE NICKEL MINES LIMITED 1972 ANNUAL REPORT

FALCONBRIDGE

ANNUAL MEETING OF SHAREHOLDERS

Wednesday, April 25, 1973

10:00 a.m. (Toronto Time)

Ontario Room, Royal York Hotel

Toronto, Ontario

CONTENTS

FRONT COVER

Metallurgical complex of Falconbridge Dominicana, C. por A., which in 1972 became a commercial producer of ferronickel for world markets. Situated near Bonao, Dominican Republic, this subsidiary company's operations are about 50 miles northwest of the capital city, Santo Domingo. The striking photograph of the complex by night was taken by Hans Rumland, Chief Chemist for Falconbridge Dominicana, C. por A.

SUMMARY

	1972	1971
Earnings (before extraordinary item)	$ 5,529,000	$ 16,217,000
— per share	$1.12	$3.27
Extraordinary item	$ (49,456,000)	
— per share	$ (9.99)	
Dividends paid per share	$1.00	$2.75
Working capital	$112,281,000	$117,067,000

FALCONBRIDGE NICKEL MINES LIMITED
P.O. BOX 40, COMMERCE COURT WEST, TORONTO, ONTARIO, CANADA

AS AT DECEMBER 31, 1972

DIRECTOR EMERITUS

THAYER LINDSLEY,
President, Northfield Mines Inc.

BOARD OF DIRECTORS

F. H. BRANDI,
Director, Dillon, Read & Co. Inc.

REGINALD CAMPBELL,
Senior Vice-President

C. F. H. CARSON, Q.C.,
Partner, law firm of
Tilley, Carson & Findlay

* MARSH A. COOPER,
President and Managing Director

O. D. COWAN,
Chairman, General Impact
Extrusions Ltd.

W. G. DAHL,
Vice-President Marketing

E. L. HEALY,
Executive Vice-President Operations

* W. F. JAMES,
Partner in James & Buffam,
Consulting Geologists

F. P. JONES, JR.,
Executive Vice-President,
The Superior Oil Company

* H. B. KECK,
President, The Superior Oil Company

* NEIL J. McKINNON,
Chairman of the Board,
Canadian Imperial Bank of Commerce

W. I. SPENCER,
President, First National City Bank

* Member of the Executive Committee

OFFICERS AND CORPORATE MANAGEMENT

H. B. KECK,
Chairman of the Board

MARSH A. COOPER,
President and Managing Director

REGINALD CAMPBELL,
Senior Vice-President

E. L. HEALY,
Executive Vice-President Operations

H. T. BERRY,
Vice-President Metallurgy and Research

W. G. DAHL,
Vice-President Marketing

D. R. DE LAPORTE,
Vice-President Western Minerals Division

JAMES HOLMES,
Vice-President Finance and Treasurer

I. H. KEITH,
Vice-President Ferronickel Division

D. R. LOCHHEAD,
Vice-President Nickel Division

J. J. MATHER,
Vice-President Industrial Minerals Division

G. P. MITCHELL,
Vice-President Exploration and Development

R. H. MOORE,
Vice-President Technical Services

J. R. SMITH,
Vice-President Eastern Minerals Division

G. T. N. WOODROOFFE,
Vice-President Corporate Affairs and Secretary

H. L. HICKEY,
Director Public Relations

KENNETH DUNN,
Controller

J. L. MATTHEWS,
General Counsel and Assistant Secretary

GENERAL REVIEW

HIGHLIGHTS OF 1972

The year 1972 was marked by gratifying success with one major project and serious disappointment with another.

In June the official opening of the ferronickel complex of Falconbridge Dominicana, C. por A. (Falcondo) took place — symbolizing the entry of this subsidiary company into the ranks of commercial ferronickel producers for world markets. Construction of the process plant and related production facilities in the Dominican Republic was completed on time and within budget. Since beginning commercial production in June the plant has operated at a rate exceeding 80 per cent of its design capacity of 63,000,000 pounds annually of nickel in ferronickel.

In December the shutdown of the nickel-iron pellet refinery complex at Sudbury was authorized by the directors after two years of intensive effort failed to develop an economic operation. It was also necessary under the circumstances to purchase by agreement with Allied Chemical Canada, Ltd. its adjacent sulphur recovery plant, also to be shut down. Alternate uses for all or part of the complex are now under investigation.

A general improvement in world economies became increasingly evident during 1972 and most metal and mineral markets related to the Falconbridge group of companies reacted favourably to improved business conditions. The Company was successful, in a highly competitive market, in delivering a record quantity of refined nickel metal as well as initial production of ferronickel from its Dominican subsidiary. Unfavourable currency exchange rates affected the prices realized by the Company and its associated Canadian metal producers. Low prices for copper adversely affected the earnings of the Company and its copper-producing subsidiaries. Increased costs of production resulted from negotiated higher wage rates and from inflation in costs of supplies.

The level of capital expenditures on mines and treatment plants of the Company and its associates was much lower than in 1971 both in Canada and in the Dominican Republic.

CONSOLIDATION OF ACCOUNTS

The format of this year's Report has been changed from that of prior years to conform with a new form of presentation of the financial statements. They present the combined earnings and financial position of Falconbridge Nickel Mines Limited and all of its subsidiary companies. For comparative purposes the results of prior years have been re-stated where necessary. A statement of supplementary information is also presented in order to provide the more important underlying data of the component operations.

CONSOLIDATED EARNINGS

Consolidated earnings for the year 1972 before extraordinary item amounted to $5,529,000 or $1.12 per share as compared with re-stated earnings of $16,217,000 or $3.27 per share for the previous year. After providing for the extraordinary item in 1972 of $49,456,000 ($9.99 per share), there was a loss for the year of $43,927,000 or $8.87 per share.

It should be noted that the results of 1972 and 1971 are not comparable in certain respects. The chief of these was the inclusion in 1972 of the operations of certain foreign and domestic operations which started up during the year, principally Falconbridge Dominicana, C. por A. In addition, the income from the Strathcona mine became subject to tax in 1972 for the first time.

The net reduction in consolidated earnings before the extraordinary item by $10,688,000 — from $16,217,000 in 1971 to $5,529,000 in 1972 — consisted chiefly of lower earnings of the integrated nickel operations ($9,049,000) and of Wesfrob Mines Limited ($4,612,000), partially offset by the higher earnings of Falconbridge Copper Limited ($1,736,000). As explained in Note 3 (page 20) the earnings of Falcondo were substantially reduced on consolidation due to the offset of the gross profit in inventory held by Falconbridge for re-sale to customers. Details of the financial results and comments on the activities of these and of other operations are given in Statement 4 in comparative form for the years 1972 and 1971 and on pages 24 to 35 of this report. In the consolidation of the earnings of the group companies it has been necessary to make a number of adjustments.

The reduction in earnings of the integrated nickel operations resulted primarily from increased costs of production and from higher income taxes as a consequence of the expiry of the tax exempt period of operations of the Strathcona mine. Partially offsetting these influences were reductions in expenditures for exploration and research.

Reduced sales and scale of production together with related higher unit costs of production accounted for the reduction in the earnings of the Wesfrob operations. In both 1972 and 1971 Falconbridge's interest in these earnings was adjusted upwards due to the tax benefit

claimed in earlier years by Falconbridge in respect of Wesfrob's preproduction and development expenditures.

The increase in Falconbridge's interest in the earnings of Falconbridge Copper reflects the results of increased production from the new tax exempt Millenbach mine of the Lake Dufault Division, offset in part by higher write-offs from the added facilities. Falconbridge's percentage interest in the earnings of Falconbridge Copper is reduced until the Sturgeon Lake property is brought into production.

The extraordinary item of $49,456,000 includes the following write-downs: $64,893,000 in the value of the nickel-iron pellet refinery complex; $8,133,000 to write down the book values of several other projects and companies which appear unlikely to reach the production stage or for which it is doubtful that the costs are now recoverable. Income and mining taxes applicable to these write-downs amount to $31,700,000 of which $23,570,000 are reflected in the 1972 accounts as a reduction of the Deferred Income and Mining Taxes. The balance of $8,130,000 has not been carried forward in the accounts as a deferred asset but is available as an offset against future federal income taxes.

NICKEL-IRON PELLET REFINERY

As mentioned above, the Company was obliged to close down the nickel-iron complex due to the failure to develop an economic operation after two years of intensive efforts by the Company and outside specialists and consultants. In accordance with the terms of an agreement made when the decision was reached to establish the nickel-iron pellet refinery, the Company purchased from Allied Chemical Canada, Ltd. the associated sulphur recovery plant. The price of $12,400,000, which was recorded in December 1972 and paid in January 1973, was greater than anticipated because of unforeseen technical difficulties aggravated by delays and recurring operational problems in the nickel-iron pellet plant.

Consideration is being given to a different process for treating pyrrhotite concentrate which would use a substantial part of this plant complex. Research work with the aim of proving the technical and economic feasibility of the process is under way and modest expenditures will be made for this program in 1973. Greater expenditures would be required thereafter, including the cost of a pilot operation, before firm decisions to undertake the project could be made. It is anticipated that a period of at least two years will be required to establish the feasibility of the proposed process. In these circumstances your directors determined that a value in use for those parts of the nickel-iron pellet refinery which could be incorporated in the above-mentioned process should be carried forward on the books of the Company pending completion of the feasibility studies. The remaining book value, together with shutdown expenses, has been written off as an extraordinary item. The value being carried forward amounts to $9,000,000.

MARKETING SUMMARY

Your Company was able to increase deliveries of nickel to a record of 89,665,000 pounds. This represents a four per cent increase over the 85,864,000 pounds delivered in 1971. Deliveries of copper at 56,464,000 pounds were seven per cent below the 60,985,000 pounds for 1971.

Nickel prices were increased by all major producers during the latter part of 1972. The base price of ferronickel and competitive materials was increased by a lesser amount than the price of electrolytic nickel which widened the price differential between nickel metal and other primary nickel-containing products. The market price for copper averaged slightly less than in 1971 but copper consumption, responding to the increased level of economic activity, was significantly higher.

EXPLORATION

Consolidated exploration expenditures for the year amounted to $8,431,000, a considerable reduction from the level of 1971. Exploration for nickel and other mineral deposits was carried out not only in Canada but in many other parts of the world, including Australia, southern Africa, South America and Norway. At Sudbury, in an area east of Onaping mine, an underground drilling program from the 3000 horizon has indicated a new, significant sulphide zone. In Manitoba, the nickel mineralization on the Bucko Lake property of Bowden Lake Nickel Mines Limited, in which Falconbridge has a 60 per cent interest, was explored by diamond drilling from a drift on the 1000-foot level. A body of nickel sulphide mineralization was discovered above and below this level. Further work has to be carried out before the full importance of this mineralization can be determined.

Evaluation of the Campana Mahuida copper prospect in Argentina was completed during the year. Studies indicated that it was uneconomic and this exploration project was terminated. Exploration activities are continuing, however, in the northern part of the country.

Exploration in southern Africa has been directed mainly towards completion of a detailed exploration program on a prospecting grant in the Tsumeb Area in South West

Africa. Some encouraging copper mineralization has been encountered in the drilling. Interesting fluorspar and kaolin prospects are being explored. Falconbridge has entered into an agreement with The Superior Oil Company, whereby, subject to certain conditions and for appropriate consideration, Superior earns a 50 per cent interest in Falconbridge's exploration activities in South Africa and South West Africa with Falconbridge retaining the right to manage the exploration and acquisition of such properties.

RESEARCH AND DEVELOPMENT

A considerable proportion of the Company's research effort continued to centre on pollution abatement and environmental control both at Sudbury Operations and at the Norwegian Refinery.

Laboratory and development work on hydrometallurgical methods of treating nickel and copper concentrates was continued, and the pilot plant program directed to the iron separation phase of the flowsheet was successfully completed.

At Sudbury Operations the drive to improve recoveries in the concentrators included start-up of a new pilot mill. Improvements in process control techniques have already met with encouraging results.

DIVIDENDS

The Company paid two dividends of 50 cents each in 1972 on February 28 and May 31 respectively. Dividends were not paid in the last two quarters of the year because of low earnings and in order to conserve cash for future capital expenditures and other purposes.

The payment of dividends by the Company is subject to restrictions contained in the Indenture securing the 8.85% Sinking Fund Debentures due May 1, 1996. These restrictions are related to earnings. As a result of the large net loss for the year after the special write-downs, shareholders' equity must increase by $17,000,000 from January 1, 1973 before the Company can resume the payment of dividends.

WORKING CAPITAL

Details of the changes in working capital during the year are given in the Consolidated Statement of Changes in Financial Position on page 13 which shows that consolidated working capital decreased by $4,786,000 to $112,281,000. Operating results after adjustments for non-cash items contributed $56,547,000 in 1972, considerably more than in the previous year. Consolidated expenditures (net) on property, plant and equipment and on development and preproduction totalled $63,576,000 compared with $146,214,000 in 1971. Working capital benefited from a $10,000,000 bank loan which matures in January 1977.

Dividend payments in 1972 totalled $4,954,000 compared with $13,640,000 in the previous year.

SHAREHOLDERS

At December 31, 1972 there were 12,254 shareholders. Of this number, 9,290 were of Canadian registry and held 4,429,442 shares — 89.4 per cent of the 4,954,497 shares outstanding after deducting 45,483 shares held by subsidiaries. At the end of 1971 there were 12,178 shareholders of whom 9,076 were of Canadian registry holding 4,384,082 shares, or 88.5 per cent.

APPRECIATION

As the foregoing review indicates, the Company and its subsidiaries were confronted by problems in 1972 that placed a considerable strain on the organization as a whole. Yet there were also several encouraging developments, among them being the record deliveries of nickel and the excellent progress of the ferronickel operation in the Dominican Republic.

Your Directors express their sincere appreciation to management and employees at all locations for their continuing efforts during 1972 in the many spheres of Falconbridge group operations. The understanding and support of the shareholders, sales representatives, customers, contractors and suppliers during the past year were a source of great satisfaction and are also gratefully acknowledged.

With the indication of an improvement in the international economy, the organization faces 1973 with confidence.

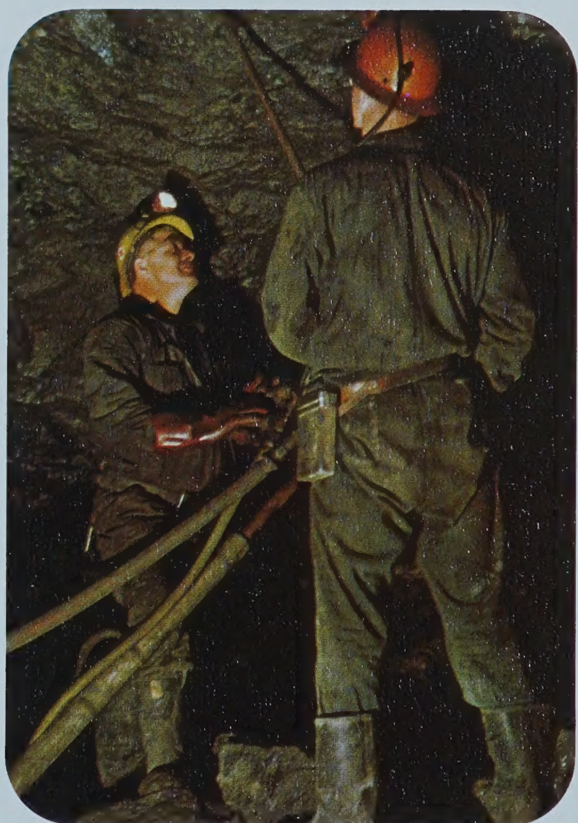
On behalf of the Board of Directors.

MARSH A. COOPER,
President and Managing Director.

Toronto, Ontario,
March 7, 1973.

Aerial view of iron-copper operations of Wesfrob Mines Limited at Tasu in the Queen Charlotte Islands, B.C., as the carrier "Japan Maple" approaches the loading dock. In the foreground is the concentrate storage and reclaim area, and directly above are the service buildings, concentrator, fine ore bins and the cobbing plant. At upper right is one of the open-pit mining areas.

A Falconbridge field exploration party on Canada's west coast, where helicopters are in widespread use in remote and mountainous areas.



Underground drilling in a Falconbridge mine at the company's Sudbury Operations.

Clarkson, Gordon & Co.
Chartered Accountants

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AUDITORS' REPORT

To the Shareholders of
Falconbridge Nickel Mines Limited:

We have examined the consolidated balance sheet of Falconbridge Nickel Mines Limited and its subsidiaries as at December 31, 1972 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. We have also examined the statement of supplementary information as at December 31, 1972 and for the year then ended and the statement of investment in associated and other companies as at December 31, 1972. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of Falconbridge Nickel Mines Limited and its subsidiaries as at December 31, 1972 and the results of their operations and the changes in their financial position for the year then ended, and the statement of supplementary information and the statement of investment in associated and other companies present fairly the information set forth therein, all in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year after giving retroactive effect to the changes in accounting policy described in note 1 of the notes to consolidated financial statements, with which changes we concur.

Clarkson, Gordon & Co.

Toronto, Canada,
February 28, 1973.

Chartered Accountants

ACCOUNTING POLICIES

The principal accounting policies followed by Falconbridge Nickel Mines Limited and its subsidiaries are summarized hereunder to facilitate review of the consolidated financial statements contained in this report.

A. Consolidation policy

In 1972 Falconbridge adopted the policy of consolidating the accounts of domestic and foreign subsidiary companies (owned more than 50%), and accounting on an equity basis for effectively controlled companies.

B. Translation of foreign currencies

(i) Current assets and current liabilities have been translated into Canadian dollars at quoted current rates of exchange at December 31;

(ii) Items included in property, plant and equipment, other assets, and non-current liabilities have been translated into Canadian dollars at the rates of exchange prevailing at the dates the transactions were recorded; and

(iii) Revenues and expenses have been translated into Canadian dollars at the average monthly quoted rates of exchange except that provisions for depreciation have been translated at the rates prevailing when the expenditures on the related assets were made.

C. Valuation of inventories

The cost of inventories derived from Falconbridge's ore has been determined on a "last-in, first-out" basis; the cost of inventories derived from the subsidiaries' ore and other sources has been determined on a "first-in, first-out" basis. Supplies inventories are determined on an average cost basis.

D. Depreciation, depletion and amortization

(i) Falconbridge calculates depreciation on the straight-line method at the rate of 10% per annum on all plant and equipment in use; the subsidiary companies, except Alminex Limited, calculate depreciation on the straight-line method at rates varying from 5% to 25%. Alminex Limited provides depreciation on a diminishing balance basis at normal rates allowable under the Canadian Income Tax Act;

(ii) All consolidated companies provide for depletion of properties over a period equal to the lesser of the estimated life of the resources recoverable from their properties or twenty-five years;

(iii) All mining companies follow the practice of deferring development and preproduction expenditures in their accounts. These are written off at rates designed to amortize the expenditures over periods not longer than the lives of the mines. Alminex Limited, an oil and gas producer, defers the costs associated with producing properties and provides depletion on these in accordance with note (ii) above;

(iv) Repairs and maintenance are charged to operations or development and preproduction; major betterments and replacements are capitalized. Upon sale or retirement, the cost of the fixed assets and the related accumulated depreciation are removed from the accounts and any gains or losses thereon are taken into earnings; and

(v) Discount and financing expenses incurred in connection with long-term debt obligations are amortized over the period that the related obligations are outstanding.

E. Exploration policy

It is the general policy to write off exploration costs as incurred. Alminex Limited's practice is to charge against income, as incurred, all carrying charges on unproven properties, cost of dry holes drilled and exploration expenses; unproven property costs are charged to income when the properties are surrendered.

F. Income taxes

All companies with the exception of Alminex Limited (see note 5 of the notes to consolidated financial statements on page 15) follow the tax allocation method of accounting. Under this method, timing differences between the amount of income reported for tax purposes and the amount of accounting income (which arise principally as a result of claiming depreciation and preproduction at rates differing from those recorded in the accounts), result in provisions for deferred taxes and these are segregated in the deferred income and mining tax account at the year-end.

CONSOLIDATED BALANCE SHEET DECEMBER 31, 1972

(Thousands of dollars)

ASSETS

	1972	1971
CURRENT:		
Cash and temporary investments thereof at cost, which approximates market value (note 3, page 15)	**$ 53,018**	$ 61,113
Accounts and metal settlements receivable	**62,962**	56,380
Inventories of metals	**41,454**	27,568
Inventories of supplies	**18,135**	15,930
	175,569	160,991
PROPERTY, PLANT AND EQUIPMENT:		
Producing assets —		
Plant and equipment, at cost	**436,797**	288,229
Land and properties, at cost	**40,096**	36,537
	476,893	324,766
Less accumulated depreciation and depletion	**212,000**	185,798
	264,893	138,968
Development and preproduction expenditures at cost less amounts written off	**88,421**	43,691
	353,314	182,659
Non-producing assets (note 4, page 16) —		
Properties and projects in the preproduction stage, at cost less amounts written off	**88,258**	314,354
	441,572	497,013
OTHER:		
Investment in associated and other companies (Statement 5, page 22)	**34,679**	32,959
Deposits, long-term accounts receivable and other assets, at cost	**5,762**	8,079
Debt discount and issue expenses, at cost less amounts written off	**5,339**	5,532
	45,780	46,570
	$ 662,921	$ 704,574

(See notes to consolidated financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1972	1971
CURRENT:		
Bank indebtedness	**$ 4,638**	$ 5,209
Accounts payable and accrued charges	**41,945**	26,491
Salaries and wages payable	**11,577**	10,053
Income and other taxes payable	**5,128**	2,171
	63,288	43,924
LONG-TERM DEBT (note 3, page 15):		
Falconbridge Nickel Mines Limited	**114,288**	105,058
Falconbridge Dominicana, C. por A.	**185,889**	186,532
Other	**1,744**	1,746
	301,921	293,336
DEFERRED INCOME AND MINING TAXES (note 5, page 16)	**6,734**	25,480
MINORITY INTEREST	**50,379**	52,354
SHAREHOLDERS' EQUITY (note 3, page 15):		
Capital (note 6, page 17) —		
Authorized:		
7,000,000 shares of no par value		
Issued:		
4,999,980 shares	**88,713**	88,713
Retained earnings	**155,065**	203,946
	243,778	292,659
Less 45,483 shares held by subsidiary companies, at cost	**3,179**	3,179
	240,599	289,480
	$ 662,921	$ 704,574

On behalf of the Board: M. A. COOPER, Director

W. F. JAMES, Director

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1972

(Thousands of dollars)

CONSOLIDATED STATEMENT OF EARNINGS

(See additional details — Statement 4, page 18)

	1972	1971
Revenues	**$ 274,578**	$ 210,864
Operating expenses:		
Costs other than the undermentioned items	**165,332**	126,137
Selling, general and administrative expenses	**15,756**	14,230
Development and preproduction expenditures written off	**21,000**	17,389
Depreciation and depletion	**27,649**	20,416
	229,737	178,172
Operating profit	**44,841**	32,692
Interest (net of interest income of $2,869,000 in 1972 and $1,643,000 in 1971) and amortization of debt expenses	**16,248**	4,524
Expenditures on exploration	**8,431**	11,698
Expenditures on research and process development	**2,546**	3,311
	27,225	19,533
Earnings before taxes and other items	**17,616**	13,159
Income and mining taxes (note 5, page 16):		
Current	**4,053**	2,668
Deferred	**2,166**	(5,737)
	6,219	(3,069)
Earnings after taxes, before other items	**11,397**	16,228
Income from investment in associated and other companies (including net gain on sales less write-offs of $382,000 in 1972 and $632,000 in 1971)	**511**	1,991
Earnings before minority interest and extraordinary item	**11,908**	18,219
Minority shareholders' interest in earnings of subsidiary companies	**6,379**	2,002
Earnings before extraordinary item	**5,529**	16,217
Extraordinary item (note 2, page 14)	**(49,456)**	
Earnings (loss) for the year	**$ (43,927)**	$ 16,217
Earnings (loss) per share (note 9, page 17)		
Before extraordinary item	**$ 1.12**	$ 3.27
For the year	**$(8.87)**	$ 3.27

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1972	1971
Retained earnings, beginning of year:		
As previously reported	**$ 203,423**	$ 199,430
Effect of changes in accounting policy (note 1, page 14)	**523**	1,939
As restated	**203,946**	201,369
Earnings (loss) for the year	**(43,927)**	16,217
	160,019	217,586
Dividends (1972 — $1.00 per share; 1971 — $2.75 per share)	**4,954**	13,640
Retained earnings, end of year	**$ 155,065**	$ 203,946

(See notes to consolidated financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED DECEMBER 31, 1972

(Thousands of dollars)

	1972	1971
Source of Funds:		
Earnings (loss) for the year	**$ (43,927)**	$ 16,217
Charges against (credits to) earnings not involving the use of (additions to) funds in the year:		
Depreciation and depletion	**27,649**	20,416
Deferred development and preproduction expenditures written off	**21,000**	17,389
Amortization of debt expenses	**203**	75
Income and mining taxes deferred	**2,166**	(5,737)
Extraordinary item (after net deferred tax recovery of $20,912,000) (note 2, page 14)	**49,456**	
	56,547	48,360
Change in minority interest	**(1,975)**	300
Increase in long-term debt (net of issue expenses)	**8,575**	185,757
Other non-current assets	**2,317**	(6,157)
Issue of shares for cash		559
Working capital of companies which now form a consolidated subsidiary		9,891
	65,464	238,710
Application of Funds:		
Increase in investment in associated and other companies	**1,720**	(159)
Payment of dividends	**4,954**	13,640
Expenditures (net) on property, plant and equipment	**39,542**	95,915
Development and preproduction expenditures	**24,034**	50,299
	70,250	159,695
Increase (decrease) in working capital during the year	**$ (4,786)**	$ 79,015
Changes in Components of Working Capital:		
Increase (decrease) in current assets —		
Cash and temporary investments thereof	**$ (8,095)**	$ 27,284
Accounts and metal settlements receivable	**6,582**	4,642
Inventories of metals and supplies	**16,091**	19,662
	14,578	51,588
Increase (decrease) in current liabilities —		
Bank indebtedness	**(571)**	(25,968)
Other current liabilities	**19,935**	(1,459)
	19,364	(27,427)
Increase (decrease) in working capital during the year	**(4,786)**	79,015
Working capital, beginning of year	**117,067**	38,052
Working capital, end of year	**$ 112,281**	$ 117,067

(See notes to consolidated financial statements)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1972

1. **Accounting policies**

(a) **Changes in accounting policy**

In 1972, in accordance with recent recommendations of the Canadian Institute of Chartered Accountants, Falconbridge adopted the policy of consolidating the accounts of its domestic and foreign subsidiaries, and accounting on an equity basis for other companies which are effectively controlled.

Prior to 1972 it was the company's policy to consolidate only the accounts of those subsidiaries which were engaged in the integrated nickel operations. Other domestic subsidiaries were accounted for on an equity basis and other foreign subsidiaries and effectively controlled companies on an adjusted cost basis.

These changes in accounting policy have been given retroactive effect and the 1971 figures have been restated accordingly. The inclusion of domestic subsidiaries in the consolidation has had no effect on consolidated earnings but, as a result of the changes relating to other foreign subsidiaries and effectively controlled companies, consolidated earnings in 1972 are greater by $238,000 or 5¢ per share and in 1971 are less by $1,416,000 or 28¢ per share than they would have been had the previous policy been continued.

(b) **Account reclassifications**

In 1972, inventories of supplies are classified as current assets; development and preproduction expenditures are included with property, plant and equipment; and producing and non-producing assets under the property, plant and equipment classification are segregated.

Comparative figures for 1971 have been restated to conform with the 1972 presentation.

(c) **Other**

The more significant of the accounting policies followed by Falconbridge and its subsidiary companies are detailed under the caption "accounting policies" on page 9.

2. **Extraordinary item**

In December 1972, the company decided it would shut down its nickel-iron pellet refinery, and the adjacent sulphur plant which it was committed to acquire from Allied Chemical Canada, Ltd. Although research work is presently being conducted on alternate processes for treating pyrrhotite concentrate, utilizing certain of the refinery complex facilities, it is anticipated that a period of at least two years will be required to establish the technical and economic feasibility of such processes. The company has written down the carrying value of the complex to $9,000,000, which amount represents the estimated value in use of those parts which would be incorporated in an alternate process. Should it be determined that these processes under study are not technically feasible or economic, a substantial portion of the costs carried forward would be recovered in salvage. Costs associated with certain mining projects of the Falconbridge group which it is considered are not now recoverable have also been written down.

In summary, the extraordinary item shown in the consolidated statement of earnings is comprised of the following:

	(000's)	
(a) Write-down of nickel-iron refinery costs:		
Capital expenditures	$ 50,698	
Other expenditures (including provision for shut-down expenses)	10,795	
Sulphur plant purchased	12,400	
	73,893	
Less amounts carried forward	9,000	$ 64,893
(b) Write-down relating to other mining projects (including deferred tax charges of $2,658,000)		8,133
		73,026
Less recovery of deferred income and mining taxes		23,570
		$ 49,456

3. Long-term debt

A. Details of long-term debt are as follows:

	1972	1971
	(000's)	
(i) Falconbridge Nickel Mines Limited		
7.75% Sinking fund debentures maturing February 1991 (a)	$ 50,000	$ 50,000
8.85% Sinking fund debentures maturing May 1996 (U.S.$50,000,000) (b)	51,094	51,094
Mortgages payable on company housing	3,194	3,964
Bank loan due January 1977	10,000	
	$ 114,288	$ 105,058

(a) No portion of the outstanding principal is due on the 7.75% debentures outstanding until 1977 when the company is required to commence sinking fund payments sufficient to retire in each of the years 1977 to 1990, $1,250,000 principal amount of debentures.

(b) No portion of the outstanding principal is due on the 8.85% debentures outstanding until 1981 when the company is required to commence sinking fund payments sufficient to retire U.S. $3,000,000 principal amount of debentures in each of the years 1981 to 1995.

	1972	1971
(ii) Falconbridge Dominicana, C. por A.		
(a) Due to Loma Corporation* (payable in U.S. currency) —		
8% Series B demand mortgage notes	RD$ 41,000	RD$ 41,000
8½% Series C demand mortgage notes	80,000	80,000
8½% Series D demand subordinate notes	34,000	34,000
Total	155,000	155,000

* Payment will only be demanded under certain specified circumstances, the most significant being in order to meet payments due on notes of Loma Corporation (a U.S. financing company) issued in the same principal amounts and at the same interest rates as the above demand notes, as follows:

8% Series B secured sinking fund notes, due semi-annually 1974 to 1977 inclusive;

8½% Series C secured sinking fund notes, due semi-annually 1976 to 1986 inclusive; and

8½% Series D guaranteed sinking fund notes, due semi-annually 1987 to 1991 inclusive.

	1972	1971
(b) Due to International Bank of Reconstruction and Development — 7% Loans, due semi-annually 1973 to 1984 inclusive, payable in various currencies	25,000	25,000
	180,000	180,000
(c) Company housing		
9½% Mortgages on company houses repayable monthly to 1992, in Dominican Republic currency	2,076	1,582
	182,076	181,582
Less long-term debt maturing within one year (included with accounts payable and accrued charges)	1,130	30
Total — Expressed in Dominican Republic currency	RD$ 180,946	RD$ 181,552
Total — Expressed in Canadian currency	$ 185,889	$ 186,532
(iii) Other:		
Oamites Mining Company (Proprietary) Limited — 8% Redeemable unsecured debentures	$ 1,607	$ 1,607
Other	137	139
	$ 1,744	$ 1,746

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

B. Guarantees, covenants and restrictions:

(i) Falconbridge has guaranteed portions of the long-term debt of Falconbridge Dominicana, C. por A. (Falcondo), details of which are as follows:

(a) All loans are secured by a first mortgage on the assets of Falcondo and by a contract under which Falconbridge Nickel Mines Limited has agreed to buy all ferronickel of commercial value produced by the subsidiary. Falconbridge is also obligated to provide 60% of the funds required by Falcondo to enable it to meet its operating costs and debt service obligations in the event receipts from the sale of ferronickel produced by Falcondo and other receipts are insufficient for that purpose. The loans (except for the loan from the International Bank for Reconstruction and Development) are covered by a specific risk insurance issued by the Overseas Private Investment Corporation (transferred from the Agency for International Development).

(b) Falconbridge has pledged all of its holdings of its shares of Falcondo against repayment of these loans, except the subordinated portion of U.S. $34,000,000. In addition, Falconbridge has made a direct guarantee for repayment of 60% of this subordinated portion of the loans.

(c) In accordance with the terms of the loan agreements, funds of $4,696,000 (included with cash and temporary investments in the consolidated balance sheet) is on deposit with the Trustee for use in paying current debt service and other expenses of Falcondo.

(d) Maturities and sinking fund requirements for each of the next five years on the Falcondo loans are as follows:

1973 — $ 1,124,000	1976 — $16,212,000
1974 — $12,411,000	1977 — $20,009,000
1975 — $12,415,000	

(ii) During the period that the Falcondo loans are outstanding, there are certain restrictions placed on the amount and nature of borrowing that Falconbridge can undertake. Covenants given by Falconbridge in this respect are substantially the same (other than the restriction on the payment of dividends) as those given by Falconbridge under the covenants relating to its 8.85% debentures which include limitations as to:

(a) The amount of dividends which may be paid by Falconbridge;

(b) The assumption of additional long-term debt; and

(c) Guarantees which it may give on certain indebtedness of its subsidiary and other companies.

(iii) Under the covenants, as a result of the loss incurred in 1972, shareholders' equity must increase by approximately $17,000,000 subsequent to the end of 1972 before Falconbridge's dividend paying capability is restored.

4. **Non-producing assets**

Certain expenditures included in this category at December 31, 1971 have been written off in 1972, as referred to in note 2.

Non-producing assets include $33,766,000 (1971 — $33,746,000) for exploration, development and other expenditures relating to New Quebec Raglan Mines Limited and its subsidiary company, Raglan Quebec Mines Limited in the development of that subsidiary company's Cape Smith-Wakeham Bay properties. While exploration and development at the properties has been suspended, studies are continuing of the feasibility of alternate methods of bringing the properties into production. Development work and feasibility studies on this project to date have not established whether or not the expenditures on the properties will be recoverable by charges against income from future mining operations. The recovery of these costs from operations is dependent upon the obtaining of adequate financing, the successful development of an economic mining operation, and the marketing of concentrate production.

See note 5 of the notes to statement of supplementary information on page 21, for details of the assets in this category.

5. **Income and mining taxes**

(a) Substantially as a result of the write-downs referred to in note 2 on page 14, expenditures which have been written off in the accounts exceed those which have been claimed by Falconbridge Nickel Mines Limited for

Federal income tax purposes by approximately $23,000,000, and this amount is available to reduce taxable incomes of future years.

(b) Alminex Limited (a 51.2% owned subsidiary) whose accounts are consolidated, in common with many others in the oil and gas industry in Canada, does not follow the tax allocation method of accounting in respect of the excess amounts of property and development costs claimed for tax purposes. Had the tax allocation method been followed by this company, consolidated income before minority interest would have been decreased by $34,000 in 1972 and by $69,000 in 1971 and cumulative deferred taxes would have been increased by $2,637,000 at December 31, 1972 and $2,603,000 at December 31, 1971.

(c) Included in operating profit is tax exempt income from new mines amounting to $11,506,000 in 1972 and $32,200,000 in 1971. Certification by Federal and Provincial tax authorities of the tax exemption relating to all of the 1972 new mine income and $1,061,000 of the 1971 amount is pending. Provisions for exemption under the tax acts from tax on income from new mines terminate at December 31, 1973.

6. **Stock options**

In 1968 the company reserved 90,000 unissued shares for the purpose of granting to certain officers and employees, options to purchase shares of the company exercisable at 95% of the market price at the close of business on the day preceding the granting of the option. Options expiring December 19, 1978, have been granted to purchase 84,500 shares at $96.00 per share; 55,910 shares have been issued under these options and options on 1,055 shares have been terminated due to cessation of employment. At December 31, 1972, options on 27,535 shares were outstanding.

7. **Commitments and lease obligations**

(a) The Ontario Government has issued certain directives in connection with company operations. It is not practicable at this stage to estimate the costs involved in complying with these directives.

(b) There are commitments outstanding aggregating approximately $2,500,000 in connection with the financing of capital expenditures of the company and its subsidiaries.

(c) Under the terms of an agreement for rental of new head office premises, the company is committed to pay annual rentals of approximately $800,000 for a period of five years commencing in 1972.

(d) Falconbridge Copper Limited, a consolidated subsidiary, is committed to loan, or otherwise cause to be provided to its subsidiary, Sturgeon Lake Mines Limited, up to $20,000,000, to enable it to develop its copper-zinc property. Accordingly, arrangements have been made with a Canadian chartered bank for a loan to be made to Sturgeon Lake of up to $20,000,000 secured by the Sturgeon Lake property and to be guaranteed by Falconbridge Copper Limited.

8. **Retirement plans**

The company and certain of its Canadian subsidiaries maintain retirement plans providing retirement, death and termination benefits for substantially all salaried and hourly rated employees. The plans have been amended from time to time and, based on the most recent actuarial evaluation, such amendments have resulted in unfunded past service obligations having a present value of $9,777,000 at December 31, 1972 which has not been provided for in the companies' accounts.

On the recommendations of the actuary the companies intend to fund these obligations through annual payments approximating $1,300,000 in each of the next three years, and $800,000 in each of the following thirteen years (which will be charged to operations in the year of payment).

The charges to operations in respect of the plans amounted to $4,218,000 in 1972 and $3,785,000 in 1971 (including $1,284,000 and $1,244,000 respectively for past service obligations).

9. **Earnings (loss) per share**

Earnings (loss) per share have been computed using the weighted average number of shares outstanding (excluding shares held by subsidiary companies). Inclusion in the earnings (loss) per share computation of shares subject to purchase under outstanding options would produce substantially the same per share results.

10. **Remuneration of directors and senior officers**

Charges included in the consolidated statement of earnings for remuneration paid or payable to directors and senior officers amounted to $1,126,000 in 1972 and $1,045,000 in 1971.

STATEMENT OF SUPPLEMENTARY INFORMATION *(Thousands of dollars)*

	December 31, 1972					
	Integrated nickel and corporate operations	Alminex Limited	Falconbridge Copper Limited	Falconbridge Dominicana, C. por A.	Indusmin Limited	Wesfrob Mines Limited
% ownership	(100%) (note 2)	(51.2%)	(50.2%) (note 3)	(65.7%) (note 3)	(69.0%)	(100%) (note 3)
OPERATIONS (note 3):						
Revenues	$ 155,848	$ 7,727	$ 48,065	$ 40,825	$ 13,221	$ 8,016
Operating expenses —						
Costs other than the undermentioned items	100,627	895	29,435	17,968	7,996	5,497
Selling, general and administrative expenses	10,231	205	578	1,481	1,640	53
Development and preproduction expenditures written off	12,006	231	4,561	1,674	181	2,497
Depreciation and depletion	13,358	1,978	2,558	3,989	1,730	3,023
	136,222	3,309	37,132	25,112	11,547	11,070
Operating profit	19,626	4,418	10,933	15,713	1,674	(3,054)
Interest (net) and amortization of debt expenses	6,563	(105)	(278)	9,549	296	(2)
Expenditures on exploration	5,334	1,663	963			466
Expenditures on research and process development	2,552					
	14,449	1,558	685	9,549	296	464
Earnings before taxes and other items	5,177	2,860	10,248	6,164	1,378	(3,518)
Income and mining taxes	4,173	1,242	1,002	2,128	204	21
Earnings from operations	1,004	1,618	9,246	4,036	1,174	(3,539)
Investment income (net)	362		30		74	
Earnings before extraordinary item	$ 1,366	$ 1,618	$ 9,276	$ 4,036	$ 1,248	$ (3,539)
Falconbridge's interest in above earnings after consolidation adjustments (note 3)	$ 1,366	$ 1,280	$ 3,588	$ 503	$ 876	$ (2,525)
WORKING CAPITAL (note 4):						
Current assets	$ 130,085	$ 2,645	$ 18,844	$ 34,110	$ 4,730	$ 3,248
Current liabilities	58,948	586	5,947	8,430	5,573	1,388
	$ 71,137	$ 2,059	$ 12,897	$ 25,680	$ (843)	$ 1,860
PROPERTY, PLANT AND EQUIPMENT (note 5):						
Producing assets, net book value —						
Plant and equipment	$ 78,191	$ 2,550	$ 6,084	$ 120,354	$ 10,492	$ 7,560
Land and properties	4,875	15,049	6,889	1,833	966	27
Development and preproduction expenditures	26,505	4,750	3,865	45,405	953	5,671
	$ 109,571	$ 22,349	$ 16,838	$ 167,592	$ 12,411	$ 13,258
Non-producing assets, at cost less amounts written off	$ 45,341	$ 1,751	$ 502		$ 672	
PRINCIPAL PRODUCTS	Nickel and copper	Oil and gas	Copper and zinc	Ferronickel	Syenite, silica and aggregates	Iron and copper
PRINCIPAL LOCATION OF ASSETS	Ontario, Manitoba, Norway	Alberta	Quebec, Ontario	Dominican Republic	Ontario, Quebec	British Columbia
MARKET VALUE OF FALCONBRIDGE'S SHAREHOLDINGS (note 6)		$ 24,070	$ 74,861		$ 9,370	

(See notes to statement of supplementary information)

		December 31, 1971							
Others	**Consolidated total** (after adjustments) (note 3)	Integrated nickel and corporate operations (100%)	Alminex Limited (51.2%)	Falconbridge Copper Limited (50.2%)	Falconbridge Dominicana, C. por A. (65.7%)	Indusmin Limited (69.0%)	Wesfrob Mines Limited (100%)	Others	**Consolidated total** (after adjustments) (note 3)
$ 12,470	**$ 274,578**	$ 154,236	$ 6,457	$ 33,804		$ 10,947	$ 15,163	$ 13,082	**$ 210,864**
8,009	**165,332**	95,519	804	20,779		7,166	7,276	8,911	**126,137**
2,337	**15,756**	10,133	188	832		1,713	26	1,809	**14,230**
100	**21,000**	13,209	212	1,986		43	2,886	341	**17,389**
763	**27,649**	12,791	1,596	1,343		1,545	3,523	499	**20,416**
11,209	**229,737**	131,652	2,800	24,940		10,467	13,711	11,560	**178,172**
1,261	**44,841**	22,584	3,657	8,864		480	1,452	1,522	**32,692**
223	**16,248**	5,179	(81)	(528)		(77)	(12)	(192)	**4,524**
4	**8,431**	9,137	1,410	1,346				32	**11,698**
	2,546	3,311							**3,311**
227	**27,225**	17,627	1,329	818		(77)	(12)	(160)	**19,533**
1,034	**17,616**	4,957	2,328	8,046		557	1,464	1,682	**13,159**
435	**6,219**	(4,532)	1,023	3,094		98	565	367	**(3,069)**
599	**11,397**	9,489	1,305	4,952		459	899	1,315	**16,228**
91	**511**	926	(42)					(487)	**1,991**
$ 690	**$ 11,908**	$ 10,415	$ 1,263	$ 4,952		$ 459	$ 899	$ 828	**$ 18,219**
$ 441	**$ 5,529**	$ 10,415	$ 1,091	$ 1,852		$ 342	$ 2,087	$ 430	**$ 16,217**
$ 5,922	**$ 175,569**	$ 94,518	$ 2,076	$ 16,992	$ 32,777	$ 4,444	$ 5,987	$ 6,895	**$ 160,991**
1,848	**63,288**	26,907	461	2,317	6,176	6,576	1,558	1,682	**43,924**
$ 4,074	**$ 112,281**	$ 67,611	$ 1,615	$ 14,675	$ 26,601	$ (2,132)	$ 4,429	$ 5,213	**$ 117,067**
$ 9,666	**$ 234,897**	$ 76,164	$ 2,176	$ 6,787		$ 11,017	$ 10,519	$ 4,256	**$ 110,919**
357	**29,996**	5,250	15,728	5,920		980	56	115	**28,049**
1,272	**88,421**	24,431	4,623	5,469		1,000	8,168		**43,691**
$ 11,295	**$ 353,314**	$ 105,845	$ 22,527	$ 18,176		$ 12,997	$ 18,743	$ 4,371	**$ 182,659**
$ 39,992	**$ 88,258**	$ 102,910	$ 1,555	$ 91	$ 162,649	$ 672		$ 46,477	**$ 314,354**
$ 32,470	**$ 140,771**		$ 20,744	$ 60,215		$ 7,657		$ 51,303	**$ 139,919**

NOTES TO STATEMENT OF SUPPLEMENTARY INFORMATION

DECEMBER 31, 1972

1. **Translation of foreign currencies**

Foreign currency items have been translated into Canadian dollars as explained in note B of the accounting policies on page 9.

2. **Integrated nickel and corporate operations**

Included under this caption are the accounts of the company and all its wholly-owned subsidiaries engaged in the integrated operations of mining, milling, smelting, refining and marketing of nickel derived from Canadian ores.

3. **Operations**

Adjustments have been made on consolidation as follows:

(a) Amortization of purchase discrepancies

The difference between Falconbridge's interest in the book value of the net assets of its subsidiaries and the carrying value in the company's accounts, is amortized in each case over the lesser of (i) the estimated life of the recoverable resources and (ii) a period of twenty-five years from the date of acquisition of the investment or the date the subsidiary commenced operations.

(b) Falconbridge Copper Limited

This company was formed in December 1971 through the amalgamation of Opemiska Copper Mines (Quebec) Limited, Lake Dufault Mines Limited and Falconbridge Mines Quebec Limited. For comparative purposes the operating results have been presented as if the amalgamation had been in effect throughout 1971; and, Falconbridge's share of earnings represents its share of earnings derived from the amalgamating companies (including dividends received from Opemiska prior to amalgamation).

Falconbridge has agreed to waive its right to dividends on 983,000 shares of Falconbridge Copper Limited which it holds, until such time as the Sturgeon Lake property (referred to in note 7 of the notes to consolidated financial statements on page 17) is brought into production. Accordingly, Falconbridge has computed its interest in the earnings of Falconbridge Copper on a basis which excludes these shares from the calculation.

(c) Falconbridge Dominicana, C. por A. (Falcondo)

Falcondo's reported earnings are for the seven months ended December 31, 1972. Prior to this period all revenues and expenditures were deferred and included with preproduction expenditures. The ferronickel produced by Falcondo is purchased and marketed by Falconbridge.

The earnings of Falcondo include profits on all ferronickel sold to Falconbridge, whereas consolidated earnings exclude the profits relating to inventories of ferronickel held by Falconbridge at December 31, 1972 for subsequent re-sale to customers.

(d) Wesfrob Mines Limited

The tax benefits relating to deferred preproduction expenditures of Wesfrob Mines Limited have been claimed and deferred by companies in the Falconbridge group. These deferred tax benefits are reflected in the consolidated statement of earnings as the preproduction expenditures are written off in the accounts of Wesfrob. Accordingly, Falconbridge's interest in Wesfrob's earnings has been increased by $1,014,000 in 1972 and $1,188,000 in 1971.

4. **Working capital**

See note 3 of the notes to consolidated financial statements for particulars of long-term debt and funds held in trust in respect of Falconbridge Dominicana, C. por A.

5. **Property, plant and equipment**

Where appropriate the unamortized difference between Falconbridge's interest in the book value of the net assets of its subsidiaries and the carrying value of the company's investment has been included with the subsidiary's property, plant and equipment on consolidation.

The following are included under the caption "Non-producing assets":

Company and project	1972	1971
	(000's)	
Falconbridge Nickel Mines Limited —		
Lockerby mine and mill	$ 23,726	$ 22,959
Nickel-iron refinery (a)	9,000	49,712
Manibridge mine (b)		17,614
Other projects	12,615	12,625
Falconbridge Dominicana, C. por A. — Ferronickel project (b)		162,649
New Quebec Raglan Mines Limited — Subsidiary's Cape Smith-Wakeham Bay properties (c)	33,766	33,746
Oamites Mining Company (Proprietary) Limited — African copper mine (b)		6,861
Other subsidiary companies' projects	9,151	8,188
	$ 88,258	$ 314,354

(a) See note 2 of the notes to consolidated financial statements on page 14.

(b) Operational in 1972.

(c) See note 4 of the notes to consolidated financial statements on page 16.

6. **Market value of Falconbridge's shareholdings**

With the exception of the investment in Falconbridge Copper Limited, for which the 1971 market value is taken as at January 10, 1972 (date of listing), the market values shown are based on Canadian stock exchanges' closing bid prices on December 31, 1971 and 1972. Because of the number of shares held by Falconbridge (representing control of the companies concerned), the amounts that could be realized if these securities were to be sold may be more or less than their indicated market value.

STATEMENT OF INVESTMENT IN ASSOCIATED AND OTHER COMPANIES

(Thousands of dollars)

	Shares			Carrying value (note 2)	
December 31, 1972	Shares of common stock	Beneficial interest	Indicated market value (note 1)	Shares	Bonds, notes and advances
Akaitcho Yellowknife Gold Mines Limited	1,198,230	36.7%	$ 599	$ 232	
Dickstone Copper Mines Ltd.	517,725	27.2	104		
Dunraine Mines Limited	1,068,558	48.6	289	59	$ 40
Giant Yellowknife Mines Limited	824,413	19.2	5,359	3,799	
McIntyre Porcupine Mines Limited	175,825	7.4	7,824	10,175	
Thompson-Lundmark Gold Mines Limited	600,000	12.0	126	377	
United Keno Hill Mines Limited (note 2)	1,195,989	48.4	4,066	3,385	
Western Platinum Mines Limited (no quoted market value)	2,500,001	25.0		6,214	7,763
Other companies			337	1,517	1,118
			$ 18,704	$ 25,758	$ 8,921
				$ 34,679	
December 31, 1971					
Akaitcho Yellowknife Gold Mines Limited	1,198,230	36.7%	$ 455	$ 232	
Dickstone Copper Mines Ltd.	517,725	27.2	207		
Dunraine Mines Limited	1,068,558	48.6	144	59	$ 36
Giant Yellowknife Mines Limited	824,413	19.2	5,688	3,799	
Joliet-Quebec Mines Limited	1,128,800	22.0	209	177	
McIntyre Porcupine Mines Limited	175,825	7.4	12,703	10,175	
Thompson-Lundmark Gold Mines Limited	600,000	12.0	114	377	
United Keno Hill Mines Limited (note 2)	1,195,989	48.4	4,605	3,855	
Western Platinum Mines Limited (no quoted market value)	2,500,001	25.0		6,214	5,432
Other companies			334	1,568	1,035
			$ 24,459	$ 26,456	$ 6,503
				$ 32,959	

NOTES: 1. The market values shown are based on Canadian stock exchanges' closing bid prices on December 31, 1971 and 1972. Because of the number of shares involved the amounts that would be realized if these securities were to be sold may be more or less than their indicated market value.

2. The carrying value represents the cost of the investments less amounts written off, and also reflects the interest in the earnings (losses) of United Keno Hill Mines Limited and certain of the "Other companies" which are accounted for on an equity basis.

FIVE-YEAR REVIEW

		1972	1971	1970	1969	1968
EARNINGS AND NET FLOW OF FUNDS ($000's)	Revenues	$ 274,578	210,864	219,681	190,805	148,525
	Earnings (before extraordinary item)	$ 5,529	16,217	42,167	46,923	34,896
	Per share (note 4)	$ 1.12	3.27	8.51	9.54	7.12
	Extraordinary item	$ (49,456)		(475)		
	Per share (note 4)	$ (9.99)		(0.09)		
	Net flow of funds from operations	$ 56,547	48,360			
EXPLORATION, RESEARCH AND DEVELOPMENT ($000's)	Exploration	$ 8,431	11,698	10,208	7,059	5,877
	Research and development	$ 2,546	3,311	4,208	2,683	2,207
ORE RESERVES (000's tons)	Falconbridge Nickel Mines Limited	92,646	99,933	97,405	94,217	91,639
	Falconbridge Dominicana, C. por A.	70,800	72,300	62,800	62,800	62,800
	Falconbridge Copper Limited (note 2)	9,753	9,615	9,777	7,921	7,986
METAL DELIVERIES (000's pounds)	Falconbridge Nickel Mines Limited —					
	Nickel	89,665	85,864	84,141	80,647	70,712
	Copper	56,464	60,985	56,922	49,456	39,787
	Falconbridge Dominicana, C. por A. —					
	Nickel in ferronickel (note 1)	38,384				
	Falconbridge Copper Limited (note 2) —					
	Copper	80,870	62,012	50,320	52,752	56,817
	Zinc	38,218	14,569	10,648	12,249	24,612
CAPITAL EXPENDITURES ($000's)	Expenditures (net) on property, plant, equipment, development and preproduction —					
	Falconbridge integrated nickel operations	$ 36,717	59,474	51,567	37,245	40,924
	Falconbridge Dominicana, C. por A.	$ 10,301	69,217	70,487	19,142	2,799
	Falconbridge Copper Limited (note 2)	$ 3,910	5,968	4,946	1,778	1,692
	Consolidated total	$ 63,576	146,214			
SHARES AND DIVIDENDS	Dividends paid per share	$ 1.00	2.75	3.50	3.50	3.50
	Number of shares outstanding at end of year (note 3) (000's)	5,000	5,000	4,955	4,946	4,905
	Number of shareholders	12,254	12,178	12,273	12,687	13,799

Notes: 1. Ferronickel delivered to Falconbridge Nickel Mines Limited.

2. See note 3 of the notes to statement of supplementary information. For comparative purposes the figures have been presented as if the amalgamation had been in effect throughout 1968 to 1971.

3. Includes shares held by consolidated subsidiaries.

4. See note 9 of the notes to consolidated financial statements.

THE INTEGRATED NICKEL OPERATIONS

EARNINGS

The major factor in the drop of $2,958,000 in operating profits of the integrated nickel operations — from $22,584,000 in 1971 to $19,626,000 in 1972 — was higher costs of production. The increased costs were particularly significant in the latter months of the year as a result of increased wages. A continued low value of the United States dollar in relation to the Canadian dollar unfavourably affected the prices realized by the Company for all metals. Nickel deliveries were higher in 1972 and the nickel price increase announced in September became fully effective by year end. Deliveries of copper in 1972 were below those of 1971 and the average price realized was marginally less.

MARKETING REVIEW

Metal Deliveries

Falconbridge nickel deliveries surpassed the preceding year's record level. Copper deliveries were lower in 1972 than in 1971 due to lower grades of copper in the ores mined and treated.

	1972	1971
Refined nickel (pounds)	89,665,000	85,864,000
Copper (pounds)	56,464,000	60,985,000

Deliveries of refined cobalt were reduced upon cessation of production as a result of extensive fire damage to the cobalt refinery at Kristiansand, Norway.

Inventories of finished nickel at the end of the year were moderately higher than at the end of 1971. Inventories of copper remained at normal levels and inventories of finished cobalt were exhausted early in the year.

Metal Prices

On September 1, 1972, Falconbridge announced an increase of U.S. 20 cents per pound in the base price of its electrolytic nickel to U.S. $1.53 per pound. Prices of nickel in other forms were also increased. Corresponding price changes were announced by Falconbridge in all international markets. Price increases were also announced by other producers.

The U.S. equivalent of the London Metal Exchange "spot" or cash price for copper wirebars averaged U.S. 48.5 cents per pound in 1972, as compared with U.S. 49.3 cents per pound in 1971; however, market conditions showed substantial improvement towards the year-end.

The producers' price of cobalt remained at $2.45 per pound throughout the year.

The producers' price of platinum was raised to U.S. $130.00 per troy ounce in July. Gold and silver prices rose sharply during the latter half of 1972.

OPERATIONS REVIEW

General

The status of those major projects in the Sudbury area which were deferred or curtailed in 1971 remained unchanged throughout 1972. Operations in Sudbury were shut down from July 30 to August 13 to permit major repairs to the smelter stack. During this period steps were taken to effect other repair and maintenance work and to allow most employees to take vacations.

Mines

Ores delivered to treatment plants from Company mines in the Sudbury area amounted to 4,199,000 tons, compared with 4,703,000 tons in 1971. This decrease reflected the effects of the curtailment noted above and the two-week summer shutdown. Production from Manibridge Mine in Manitoba totalled 166,000 tons for the year.

Work on the Lockerby project was confined to the mine. The ventilation shaft was sunk and pumping stations, ore passes and other permanent service openings were excavated. The orebody was further delineated by extensive diamond drilling from underground. Mine planning and other engineering studies continued throughout the year.

Preparation for the recovery of the crown pillar at the Hardy Mine by open pit methods was undertaken. Progress was made in dewatering and stripping the overburden. The first ore from this source was produced in September and sustained production is expected by mid-1973.

Continued ground control problems and the shortage of skilled labour restricted output at the Manibridge Mine in northern Manitoba. Full output of 1,000 tons per day had been expected by mid-1972, but it now appears that the above constraints will limit mine production in the immediate future to less than two-thirds of the mill capacity.

Treatment Plants

Smelting operations were carried on at rated capacity except during the repair period and on those occasions when production rates in the smelter had to be lowered to comply with air management regulations of the Ontario Government.

Efforts continued towards improving efficiency to counter rapidly rising costs. In this regard, by rescheduling operations at other mills it was possible to discontinue the relatively high cost Hardy milling operations.

A major step towards meeting the control and abatement requirements of the Air Management Branch of the Ontario Government was taken on April 17, 1972 when,

after 17 years, the pyrrhotite plant operation at Falconbridge was terminated. The nickel recovered in this operation from the pyrrhotite will again have to be wasted until some other method of recovery is evolved.

Falconbridge Nikkelverk Aktieselskap

The Company's nickel-copper matte is refined at the plant of its subsidiary at Kristiansand, Norway. Production of nickel was the highest on record, with associated products at high levels. Extensive damage was sustained at the cobalt refining section of the plant in a fire on May 4, 1972, but this plant has been rebuilt and operations were resumed in March, 1973. Following the fire, the output of cobalt-containing residues from the nickel refining operation were stockpiled for subsequent treatment.

Employees

Harmonious relations between the Company and its employees prevailed at all operating locations.

A new three-year collective agreement with the Sudbury Mine, Mill and Smelter Workers' Union (the production and maintenance employees in the Sudbury Operations) was signed effective August 21, 1972. The collective bargaining agreement with the employees of Falconbridge Nikkelverk A/S was also renewed.

At the end of 1972 there were 4,642 employees on the Sudbury Operations payrolls compared with 4,980 a year earlier; 1,609 at the Norwegian refinery compared with 1,583; and 189 at Manibridge compared with 140.

Expenditures (Net) on Mines and Plants

During 1972 expenditures on mines and treatment plants were substantially below those of 1971. The Lockerby Mine accounted for a major portion of the expenditures on property, plant and equipment. The major development and preproduction expenditures in 1972 occurred primarily at the Strathcona and Lockerby Mines. The following table presents the expenditures for the past three years:

	1972	1971	1970
Property, plant and equipment	$24,479,000	$41,993,000	$34,903,000
Development and preproduction ...	12,238,000	17,481,000	16,664,000
	$36,717,000	$59,474,000	$51,567,000

Ore Reserves

The Company's ore reserves at the end of 1972 showed a decrease of 7,287,000 tons after mining 4,288,000 tons during the year. There was no decrease in the amount of contained nickel but the quantity of contained copper was reduced.

The loss in tonnage results from the economic re-evaluation of some low grade areas in several mines.

Total proved and probable reserves of the Company (Sudbury Operations in Ontario and Manibridge Mine in Manitoba) were as follows:

		Tons of contained metal		Average grade (%)	
Year	Tons of ore	Nickel	Copper	Nickel	Copper
1972	92,646,000	1,229,000	620,000	1.33	0.67
1971	99,933,000	1,229,000	646,000	1.23	0.65

Environmental Improvement — *The company carries on a continuing program of environmental improvement at its operating locations. As typified by the photograph at left, considerable progress has been made in the development of a widening "green belt" around the Falconbridge townsite. In 1972 more than 100 bushels of fall rye seed were harvested from a 10-acre field near the company's processing plants, and some of the new seed was planted to provide additional vegetation cover in nearby areas. About 120,000 poplar trees have been planted in the Falconbridge area as part of the overall program in the Sudbury Basin.*

MARKETING ACTIVITIES

FALCONBRIDGE INTERNATIONAL LIMITED

Substantial improvement in the general level of industrial activity during 1972 led to increased demand for nickel. Consequently nickel consumption in non-communist countries exceeded that of the previous year by nearly 11 per cent. This consumption upturn indicates a gradual return to the vigorous long-term growth trend of 6½ per cent per year, a trend now established over more than 25 years.

The nickel industry has proved very sensitive to cyclical changes in general industrial activity. On more than one occasion in the past, in spite of high finished metal inventories, the market has moved from an oversupply position to one of shortage in a matter of months.

Inventories in the hands of producers, in excess of minimum working levels, are estimated now at only about three months' consumption. Some established producers currently have spare production capacity; however, much of this capacity takes considerable time to reactivate. To establish and bring a new source into production takes many years. Although new projects will eventually contribute substantially increased quantities of nickel, supplies from these sources will not be available before nickel consumption has far surpassed today's levels.

Increasingly, nickel consumers are demanding product forms designed for maximum economy in specific end uses. Nickel producers are responding to this need. Stainless and alloy steelmakers, for example, one of the most important groups of nickel consumers, may now choose from a broad range of ferronickels, nickel oxides and pure nickels suited to particular applications.

The Company's recent diversification into ferronickel has helped to improve its overall competitive position. Throughout 1972, increasing quantities of Falconbridge ferronickel flowed into eleven North American and European countries. Major reasons for consumers' favourable reaction to Falconbridge ferronickel are the product's excellent chemistry and handling characteristics. Falconbridge ferronickel has a nickel content averaging 40%, the balance consisting of low phosphorus iron. Individual self-palletizing ferronickel pigs are steel-strapped into unit

Falconbridge ferronickel is widely used for the production of nickel-bearing stainless and alloy steels.

loads which can be easily stored and handled by a steelmaker. Falconbridge's customers are taking full advantage of the operating benefits and economies made possible by the use of this new product.

Further strengthening of the Company's marketing and sales functions has proceeded according to plan. Falconbridge Europe S.A., a wholly-owned subsidiary, has intensified the Company's marketing presence in Europe and is now directly responsive to the needs of customers.

In addition to the marketing of nickel and other refined metals produced by Falconbridge Nickel Mines Limited, Falconbridge International and Falconbridge Europe continue to assist in commercial activities of other members in the Falconbridge Group of companies.

Falconbridge International also markets ores, concentrates, refined metals and commodities produced by most other mining companies in the Group. The total sales value of these products is now in excess of $100 million annually. Related services include market research, commodity evaluation and forecasts, transportation studies, contract negotiation and direct sale of the commodities to consumers.

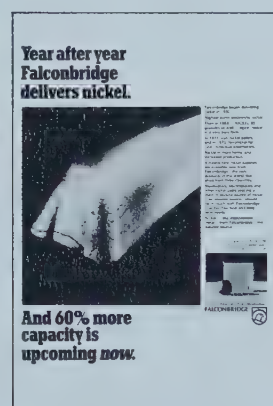
Market planning activities were mainly concerned with the evaluation of nickel industry trends and new product possibilities. In today's competitive environment the Company's main objective must be to maintain an even closer scrutiny of the customer's changing product needs.

Marketing communications and promotion programs were intensified during 1972 to assist in increasing the Company's share of world nickel markets. In 1971, Falconbridge supplied about 10 per cent of the total nickel requirements of North America, Europe and Japan. In 1972, the Company's participation increased to about 13 per cent.

Management 1972

President and Managing Director	W. G. Dahl, Toronto
Vice-President Sales	D. M. Henderson, Toronto
Vice-President Administration	E. H. Holm, Toronto

Expanded advertising and marketing literature programs were conducted to promote the Falconbridge product line.



MAJOR SUBSIDIARY AND ASSOCIATED COMPANIES

ALMINEX LIMITED

After provision for royalty, net production of crude oil and natural gas liquids rose to an average of 6,077 barrels per day in 1972, up 19.3 per cent over 1971. A record was achieved in December when an average of 6,834 barrels per day was produced. The average net daily production of natural gas in 1972 was 23.4 million cubic feet, an increase of 19.1 per cent over 1971 when gas production was restricted by an explosion and fire at the Marten Hills South plant. The declining trend of sulphur production continued, and net production was down 9.2 per cent for a total of 6,352 long tons. The sulphur market remained weak.

The higher production of crude oil and natural gas liquids was obtained almost entirely from existing fields, whereas natural gas production was increased by the first sales from Harmattan Elkton. Markets for oil and gas remain strong and justify the continuing large expenditures required to increase production.

Revenues increased 19.7 per cent to $7,727,000. Although exploration activities increased and the provisions for depletion and income taxes were higher, net income was up 28.1 per cent to $1,618,000. During 1972, dividends paid increased to 22¢ per share for a total of $1,682,000.

Net proven and probable reserves of crude oil and natural gas liquids declined to 44,918,000 barrels, down by approximately the amount of the year's production. Crude oil reserves are net of the royalty payable at the end of 1972, but the Alberta government has passed legislation requiring producers to pay increased royalties or increased taxes. With respect to Crown leases containing a stipulated maximum royalty, producers may elect by mid-1973 on a lease-to-lease basis to pay either increased taxes or increased royalties. As it is not possible to know now what elections will be made, reserve estimates are based on royalties payable under existing agreements. If all elections are to pay increased royalties, proven and probable reserves will be reduced by 3.3 million barrels.

Commonwealth Drilling Rig No. 19, engaged in a foothills test at Union Nose Creek, 58 miles southwest of Grande Prairie, Alberta. Under certain conditions the hole may be drilled below 18,000 feet — to become one of the deepest wells ever drilled in Canada. Alminex Limited has joined with other oil producers in financing the program.

Although reserves of natural gas were added as a result of new discoveries, they were more than offset by production, and net proven and probable reserves of gas decreased to 163.6 billions of cubic feet.

Some exploratory drilling was undertaken in Wyoming, U.S.A., and in Ontario, but the major exploration effort during 1972 continued to be made in the western Canadian provinces and the Northwest Territories. In future years, foreign exploration will receive greater attention.

Capitalization	As at December 31, 1972 Outstanding	Held by Falconbridge	
Common Shares	7,645,661	3,913,871	51.2%

Production	Year ended December 31 1972	1971	Increase
Crude oil and natural gas liquids — bpd	6,077	5,095	19%
Gas — thousands of cubic feet per day	23,389	19,642	19%
Sulphur — long tons	6,352	6,997	(9%)

Reserves (proved and probable)	As at December 31 1972	1971
Crude oil and natural gas liquids — barrels	44,918,000	47,007,000
Natural Gas — billions of cubic feet	163.6	169.6
Sulphur — long tons	220,000	226,000

Financial	Year ended December 31 1972	1971
Revenue from sale of gas and oil, less royalties	$ 7,727,000	$ 6,457,000
Earnings before write-offs for depreciation, depletion and property surrendered but before advances to subsidiaries	3,827,000	3,071,000
Income tax	1,242,000	1,023,000
Earnings after all charges	1,618,000	1,263,000
Dividends paid — 22¢ in 1972, 17¢ in 1971	1,682,000	1,300,000

Falconbridge interest in		Per share of Falconbridge
Earnings after all charges	$ 829,000	$ .17
Dividends paid	861,000	.17
Excess of dividends over earnings	$ 32,000	$ —

Management 1972

President	F. R. Burton, Toronto
Vice-President and General Manager	J. N. Stephen, Calgary

FAHRALLOY CANADA LIMITED

Protracted strikes and reduced production at the plants of several of the Company's largest mining customers, as well as a dearth of orders for new equipment requiring Fahralloy products, resulted in a 10 per cent drop in total tonnage shipments in 1972, compared to 1971. Shipments of shell-moulded castings were up 50 per cent in 1972, however, and the higher sales value of the castings raised the total value of shipments of all products to the same level attained in 1971.

Earnings of Fahralloy-Wisconsin Limited, in which Fahralloy has a 50 per cent interest, were adversely affected by reduced demand for their products, and were down 31 per cent compared to 1971 earnings.

Fahralloy's earnings from operations, including its interest in the earnings of Fahralloy-Wisconsin Limited, amounted to $280,000, compared with $316,000 in 1971.

Capitalization	As at December 31, 1972 Outstanding	Held by Falconbridge	
Common shares	701	701	100%

Financial	Year ended December 31 1972	1971
Depreciation	$ 305,000	$ 288,000
Equity in earnings of Fahralloy-Wisconsin Limited	66,000	96,000
Income taxes	190,000	213,000
Earnings from operations	280,000	316,000

Management 1972

Chairman of the Board	T. G. Beament, Orillia
President and Managing Director	J. A. Wilson, Orillia

Pouring operations at Fahralloy-Wisconsin centrifugal casting foundry at Orillia, Ontario.

Falconbridge Nikkelverk A/S refinery — Kristiansand S., Norway

FALCONBRIDGE COPPER LIMITED

Net earnings for the year amounted to $9,276,000 or 77 cents per share compared with $4,952,000 or 42 cents per share in 1971.

The Company paid dividends of $9,590,000 during the year compared with $6,066,000 in 1971. A total of $3,499,000 was expended on property, plant and equipment and $411,000 on preproduction expenses during the year.

Surface and underground exploration and development continued at a normal rate with $3,920,000 being charged against earnings.

At year-end the Company along with NBU Mines Limited purchased two claims in the Sturgeon Lake area from Mattagami Lake Mines Limited. This will permit the mining of the boundary orebody of Sturgeon Lake Mines Limited by a single open pit.

LAKE DUFAULT DIVISION

Operating profit amounted to $4,881,000 compared with $1,942,000 in 1971.

The average price received for copper contained in concentrates produced during the year was 47.0 cents per pound compared with 48.3 cents per pound in 1971, while the price received for zinc was 18.6 cents per pound compared with 15.3 cents per pound in 1971.

Metal production was higher than in 1971 due to a full year of production of the higher-grade ore from the Millenbach mine in 1972. The mill treated 562,000 tons of ore during the year compared with 509,000 tons in 1971. Mill head grade averaged 3.16 per cent copper and 4.39 per cent zinc compared with 1.48 per cent copper and 2.02 per cent zinc in 1971.

Ore reserves at the end of the year were calculated to be 2,835,000 tons, with an average grade of 3.1 per cent copper and 3.9 per cent zinc. This figure includes 270,000 tons of Norbec ore, stockpiled on surface, with an average grade of 1.2 per cent copper and 2.2 per cent zinc.

The Norbec mine will be mined out during 1973, after which time all production will come from the Millenbach mine and the Norbec stockpile.

OPEMISKA DIVISION

Operating profit amounted to $5,682,000 compared with $6,408,000 in 1971.

The average price received for copper contained in concentrates produced during the year was 46.6 cents per pound compared with 48.5 cents per pound in 1971.

Since 1972 was the first full year for the Division's expanded operations, metal production was higher than in 1971. The mill treated 1,157,000 tons of ore during the year compared with 1,074,000 tons in 1971. Mill head grade averaged 2.20 per cent copper compared with 2.31 per cent in 1971.

Ore reserves at the end of the year were calculated to be 6,918,000 tons, with an average grade of 2.46 per cent copper.

Late in the year the Directors authorized the development of a copper-gold area at the east end of the property. This new mine, which will be capable of producing 300 tons of ore per day, will be known as the Cooke mine.

The Robitaille orebody was mined out in 1972, and the surface plant from this mine will be relocated at the new Cooke mine.

Employer-employee relations at this Division, as well as at the Lake Dufault Division, were satisfactory throughout the year.

Capitalization	As at December 31, 1972 Outstanding	Held by Falconbridge	
Common shares	*12,970,125	6,509,689	50.2%

* Includes 983,000 shares on which Falconbridge Nickel has disclaimed dividends until the Sturgeon Lake property is brought into production.

Financial	Year ended December 31 1972	1971
Revenue from metal shipments	$48,065,000	$33,804,000
Earnings before amortization and depreciation	13,437,000	7,160,000
Earnings after all charges	9,276,000	4,952,000
Dividends paid	9,590,000	6,066,000
Working capital	12,897,000	14,675,000

Management 1972

Chairman of the Board, M. A. Cooper, Toronto
President, J. R. Smith, Toronto
Manager – Opemiska Division J. P. Bonneville, Chapais, Que.
Manager – Lake Dufault Division W. R. Wright, Noranda, Que.

STURGEON LAKE MINES LIMITED

Under the agreement with NBU Mines Limited an exploration program was conducted on the property. No new areas of economic significance were indicated and the program was suspended in March.

Site investigations were carried out early in the year to assist in preparing estimates. A preliminary program of soil test drilling was done in the proposed plant area and at probable water supply sites. A proposed main access road was laid out and the centreline cut and surveyed.

An engineering estimate on the capital, preproduction and operating costs was completed for a mining and milling operation based on 1,200 tons per calendar day.

Capitalization	As at December 31, 1972 Outstanding	Held by Falconbridge Copper	
Common shares	1,000,000	670,000	67%

Financial	Year ended December 31 1972	1971
Exploration, development and other expenditures deferred	$ 411,000	$ 92,000

Management 1972

President J. R. Smith, Toronto
Manager H. R. Graham, Toronto

GIANT YELLOWKNIFE MINES LIMITED

Production in 1972 from Giant Yellowknife Mines Limited and its subsidiaries, Lolor Mines Limited and Supercrest Mines Limited, totalled 401,000 tons. Because of the higher price received for gold during the year, mining was carried out to lower cut-off grades than in previous years and, as a result, gold output fell from the 218,000 ounces of 1971 to 201,000 ounces in 1972.

Operating income before write-offs at $3,484,000 was much improved over 1971 as a result of the higher gold price, even though operating expenditures rose because of increased labour, material and diamond drill costs.

The higher gold price also enabled additions of lower-grade ore tonnages to be made to reserves. Total developed reserves for Giant Yellowknife and its subsidiaries as of December 31, 1972, were 745,000 tons at 0.54 oz. gold per ton, compared to 699,000 tons averaging 0.67 oz. gold per ton in 1971. With a production of 401,000 tons, this represents an addition to ore reserves during 1972 of 447,000 tons. About one-half of the new tonnage was obtained through recontouring of existing stoping blocks using lower cut-off grades, and the other half by definition diamond drilling.

Exploration of the Northbelt property was continued. A small drill program on one of the promising structures produced no significant results. Other areas of this property are to be investigated in 1973. Exploratory drilling was also done on 18 geophysical anomalies in the Perry River nickel area near the Arctic coast, with no encouraging results.

A drill program was undertaken near the East Arm of Great Slave Lake where a mineralized structure with copper values of up to one per cent was encountered. A follow-up drilling program is being planned for 1973.

	As at December 31, 1972		
Capitalization	Outstanding	Held by Falconbridge	
Common shares	4,303,050	824,413	19.2%

	Year ended December 31	
Production (Consolidated)	1972	1971
Tons milled	401,000	404,000
Gold produced — ounces	201,000	218,000
Financial (Consolidated)		
Revenue from metals produced, including Emergency Gold Mining Assistance	$12,113,000	$ 9,228,000
Earnings before amortization and depreciation	2,025,000	1,374,000
Earnings after all charges	1,469,000	762,000
Dividends paid — 40¢ per share	1,721,000	1,721,000
Working capital	6,807,000	6,173,000

Falconbridge interest in		Per share of Falconbridge
Earnings after all charges	$ 282,000	$ .06
Dividends paid	330,000	.07
Excess of dividends over earnings	$ 48,000	$ .01

Management 1972

President and Managing Director — D. R. De Laporte, Toronto

Mine Manager — D. J. Emery, Yellowknife, N.W.T.

INDUSMIN LIMITED

Sales and net earnings in 1972 showed substantial growth in comparison with 1971. Sales rose by 20.8 per cent and earnings by 172 per cent. The earnings and cash recovery per share were $1.07 and $2.80 respectively, compared to $0.39 and $1.94, in 1971.

Indusmin is a major supplier of industrial minerals to the glass, concrete products, ceramic, paint, abrasives, plastics, chemical and other industries. There are three divisions, (nepheline syenite, silica and aggregates) with producing quarries and plants in six locations in Quebec and Ontario. Substantial markets for the Company's products have been developed in North America and overseas.

	As at December 31, 1972		
Capitalization	Outstanding	Held by Falconbridge	
Common shares	1,167,901	806,030	69%

	Year ended December 31	
Financial	1972	1971
Sales of all products	$13,221,000	$10,947,000
Earnings before amortization and depreciation	3,159,000	2,048,000
Earnings after all charges	1,248,000	459,000
Dividends paid — 55¢ per share, 1972, 50¢ per share, 1971	642,000	584,000
Working capital	(843,000)	(2,132,000)

Falconbridge Interest in		Per share of Falconbridge
Earnings after all charges	$ 861,000	$ .17
Dividends paid	443,000	.09
Excess of earnings over dividends	$ 418,000	$ .08

Management 1972

President and Managing Director — J. J. Mather, Toronto

Silica processing plant of Indusmin Limited at Midland, Ontario treats material shipped from the company's quarry and crushing plant on Badgeley Island.

FALCONBRIDGE DOMINICANA, C. POR A.

During 1972 the Company achieved profitable production on a commercial scale, and established itself as a major new producer of ferronickel for world markets.

Deliveries of ferronickel having a nickel content of 38,384,000 pounds were made in 1972 to Falconbridge Nickel Mines Limited which purchases and markets Falcondo's production. Start-up operations of the plant were continued until May, 1972, when, on completion of commissioning and integration of all operations, the preproduction period terminated. Thereafter the Company's operations were placed on a profit and loss basis of accounting, and for the seven-month period ended December 31, 1972, net earnings were RD $4,390,000 or RD $2.93 per share (RD $1.00 equals U.S. $1.00 at the official rate of exchange.)

Expenditures for the year on property, plant, equipment, development and preproduction amounted to RD $10,418,000. The long-term debt at the end of the year was RD $180,946,000 of which RD $2,076,000 represented mortgage borrowings for urban development — a net increase of RD $494,000 in mortgage borrowings during 1972.

During the year approximately 1.5 million dry short tons of ore were mined and delivered to the plant. This was adequate to meet process plant requirements which, in the first half of 1972, were at a modest level as commissioning of the plant was continued. After achieving commercial production the plant operated at an average rate exceeding 80% of its annual design capacity of 63 million pounds of nickel in ferronickel. During parts of this period design throughput was achieved; however, the rate will not be sustained until after the first quarter of 1973 when the warranty inspection of the three turbine generators and certain alterations will have been completed. Modifications to the ore preparation circuit and additional facilities for metal handling will provide the flexibility essential to sustain optimum operating performance.

The power plant and the entire fuel oil system performed adequately to meet all plant demands and both systems exhibited very satisfactory serviceability.

Community development continued with the placing in service of a recreation club, swimming pool and library.

Ore reserves at the end of 1972, after mining 1,500,000 dry short tons, were 70,800,000 dry short tons grading 1.58% nickel.

The Company work force at the end of 1972, including construction employees, totalled 1,961 of whom 134 were expatriate personnel.

A highlight of the year was the ceremony on June 21st, when His Excellency, Dr. Joaquin Balaguer, President of the Dominican Republic, inaugurated the ferronickel complex and community facilities.

Credit for the excellent progress during the year is due to all personnel engaged in this enterprise. Special recognition is accorded officials of the Dominican Republic for their ready co-operation at all times.

	As at December 31, 1972		
Capitalization	Outstanding	Held by Falconbridge	
Common shares (Par value of RD $10 each)	1,500,000	985,762	65.7%

Production	Year ended December 31 1972
Ore mined and delivered to plant — dry short tons ..	1,500,000
Deliveries of ferronickel-nickel content in pounds	38,384,000

Financial	Seven months ended December, 1972
(RD $1.00 equals U.S. $1.00)	
Revenue from metal shipments	RD$ 41,458,000
Earnings before interest on debt, depreciation and amortization	21,576,000
Earnings after all charges	4,390,000
	At December 31, 1972
Working Capital	RD$ 25,852,000
Long-Term Debt	180,946,000

N.B.: The previous year's financial data are not given as they are not comparable due to the plant and operations being in construction and preproduction throughout 1971.

Management 1972

President	M. A. Cooper, Toronto
Executive Vice-President	E. L. Healy, Toronto
Vice-President & General Manager	I. H. Keith, Santo Domingo, Dominican Republic

Section of Falconbridge Dominicana's open-pit mining area, in the hills above the site of the metallurgical complex.

FALCONBRIDGE DOMINICANA —

Company President Marsh A. Cooper is shown during his address at the official inauguration ceremonies at the plant site on June 21, 1972. Officiating at the event was His Excellency Dr. Joaquin Balaguer, President of the Dominican Republic. Shown seated to the immediate right of Mr. Cooper are President Balaguer and the country's Vice-President, Lic. Carlos Rafael Goico Morales.

View of the community recreation hall and swimming pool built by the Company in the Bonao urban development area.

KILEMBE COPPER COBALT LTD.

Events in Uganda during 1972 have had an unfavourable effect on the production and financial results of this company's subsidiary, Kilembe Mines Limited. The loss of many key personnel has placed an unusually heavy burden on remaining staff members. Despite these problems, 907,000 metric tons of ore containing 1.73 per cent copper were milled, a modest reduction from 948,000 metric tons containing 1.80 per cent copper in 1971. Production declined to 14,200 tons of blister copper from 15,700 tons in 1971.

Proved and probable ore reserves were 5,727,300 metric tons averaging 1.97 per cent copper at year-end 1972. At December 31, 1971 they were 5,166,700 metric tons averaging 1.91 per cent copper.

In June the corporate income tax rate for mining companies was reduced from 40 per cent to 22.5 per cent and the copper export tax was abolished.

The mineral properties of Kilembe Mines Limited are held under a renewable mining lease from the government of Uganda for 21 years from January 1, 1953. Negotiations for renewal of the lease have been carried on for many months but no agreement has been reached as yet.

	As at December 31, 1972		
Capitalization	Outstanding	Held by Falconbridge	
Common shares	3,877,027	2,820,827	72.8%

	Year ended December 31	
Production	1972	1971
Tons milled	907,000	948,000
Blister copper produced, metric tons	14,200	15,700
Financial (Consolidated)....		
Revenue from metal production	$15,224,000	$17,239,000
Earnings before depreciation and minority interest	1,178,000	751,000
Earnings (loss) before minority interest	(404,000)	(882,000)
Earnings (loss) after all charges and minority interest	(331,000)	(638,000)
Dividends paid — 20¢ in 1971	—	775,000
Working capital	5,639,000	4,715,000

Falconbridge interest in		Per share of Falconbridge
Loss after all charges	$ 241,000	$ .05

Management 1972

Kilembe Copper Cobalt Ltd., President, G. T. N. Woodrooffe
Kilembe Mines Limited, Chairman, A. E. Pugsley, Johannesburg
Managing Director, M. D. Cruickshanks, Kilembe, Uganda

OAMITES MINING COMPANY (PROPRIETARY) LIMITED

After a difficult start caused by a general strike of Ovambo labour throughout South West Africa in January 1972, the mine output improved steadily, and the rated output figure of 45,000 metric tons per month was reached by the year-end. The efficiency of all operations improved as the labour force stabilized and as operating experience was gained. The average grade of ore milled during the year was 1.39 per cent copper. Mine development was on schedule, and no difficulty is expected in attaining either scheduled tonnage or grade in 1973.

The revaluation of the South African rand against the pound in November 1972 resulted in a reduction in the revenue received from concentrate sales.

	As at December 31, 1972		
Capitalization	Outstanding	Held by Falconbridge	
Common shares	253,680	190,000	74.9%
Long Term Debt			
Redeemable unsecured debentures — 8%	$ 6,403,000	$ 4,796,000	74.9%

	Year ended December 31	
Production	1972	1971
Tons ore milled	353,000	43,000
Mill head grade (% Cu)	1.39	1.10
Mill recovery	92.29	86.50
Concentrates produced (metric dry tons)	12,000	1,000
Recoverable copper — pounds	10,015,000	917,000
Financial		
Revenue from sales of concentrates	$ 4,690,000	
Earnings before amortization and depreciation	823,000	
Earnings after all charges	272,000*	
Development expenditures	115,000	733,000
Additions to plant and equipment	597,000	2,964,000

* For accounting purposes the mine was considered to have commenced production April 1, 1972, consequently all revenues less expenses prior to this date were credited to development expenditures.

Falconbridge interest in		Per share of Falconbridge
Earnings after all charges	$ 204,000	$ .04

Management 1972

Chairman A. E. Pugsley, Johannesburg
Mine Manager K. E. Mantell, Windhoek, South West Africa

NEW QUEBEC RAGLAN MINES LIMITED

No work was carried out on the properties in 1972. Exploration permits were renewed and cover a 10-year period from mid-1972. Engineering and economic studies have been and are being continued in an attempt to determine the feasibility of bringing the property into commercial production. Expenditures in 1972 involved maintenance of the properties, and insurance charges. Total cost of these, less proceeds from sale of road-building equipment, was $20,000.

	As at December 31, 1972		
Capitalization	Outstanding	Held by Falconbridge	
Common shares			
New Quebec Raglan Mines Limited	7,760,294	5,296,490	68.3%
Preferred shares			
Raglan Quebec Mines Limited			
6% preferred	7,500,000	7,500,000	100%
8% preferred	7,500,000	7,500,000	100%
6¾% preferred	2,261,029	2,261,029	100%

Management 1972 — President, J. R. Smith, Toronto

UNITED KENO HILL MINES LIMITED

Production of metal was substantially below 1971 levels due to a lower tonnage of ore mined and a decrease in both lead and zinc grades. The production drop was largely compensated for by an increase in metal prices, and operating results were close to those of 1971. The Hector and Calumet mines were closed in the fourth quarter, after all known reserves were depleted.

Exploration adits were driven into potential ore zones at the Townsite and Dixie properties. Strong vein structures with weak mineralization were encountered, and further exploration on these veins is scheduled.

A detailed reconnaissance of the intrusive belt north of Whitehorse was carried out. Trenching and mapping were completed on the Minto claim group, and further work is planned.

Capitalization	As at December 31, 1972 Outstanding	Held by Falconbridge	
Common shares	2,470,000	1,195,989	48.4%

Production	Year ended December 31 1972	1971
Tons ore milled	81,000	95,000
Ounces silver produced	2,504,000	2,920,000
Pounds lead produced	6,108,000	8,221,000
Pounds zinc produced	3,307,000	6,533,000
Pounds cadmium produced	47,000	84,000
Financial		
Revenue from metal shipments	$ 6,121,000	$ 6,714,000
Expenditures on exploration and development	1,072,000	1,008,000
Earnings (loss) before depreciation and amortization	(360,000)	(156,000)
Earnings (loss) after all charges	(724,000)	(554,000)
Dividends paid — 10¢ per share	247,000	247,000
Working capital	7,540,000	7,912,000

Falconbridge interest in		Per share of Falconbridge
Loss after all charges	$ 350,000	$ .07
Dividends paid	$ 119,000	$ .02

Management 1972

President	D. R. De Laporte, Toronto
Mine Manager	J. E. Ashton, Elsa, Yukon Territory

WESFROB MINES LIMITED

Iron markets continued depressed throughout the year. Concentrates produced dropped to 60 per cent of the previous year's level. Unit operating costs rose 29 per cent due, for the most part, to the lower level of production. Because of a prolonged seamen's strike in the Japanese merchant service, stockpiles became full and operations ceased on July 8th. Operations resumed at a reduced level on August 21st and reached the scheduled level on September 18th.

A new Collective Agreement was reached with the employees on August 25th. During October, the mine set a record of 413 days without a lost-time accident.

A feasibility study of potential underground mining was essentially completed by year-end.

Capitalization	As at December 31, 1972 Outstanding	Held by Falconbridge	
Common shares	3,832,994	3,832,994	100%

Production	Year ended December 31 1972	1971
Iron concentrates — dry metric tons	637,000	1,056,000
Copper concentrates — dry metric tons	12,000	29,000
Copper in concentrates — pounds	5,321,000	13,268,000
Financial		
Revenue from metals produced	$ 8,016,000	$15,163,000
Operating profit before undermentioned items	2,465,000	7,858,000
Depreciation including profit or loss on disposal of fixed assets	2,994,000	3,489,000
Preproduction and development expenditures written off	2,497,000	2,886,000
Amortization of mining properties	29,000	34,000
Exploration on other properties	466,000	
Income and mining taxes	21,000	565,000
Earnings (loss) for the period before extraordinary item	(3,539,000)	899,000
Earnings (loss) for the period*	(6,206,000)	899,000

* The extraordinary item ($2,667,000) pertains to deferred tax debits set up in prior years which the Company now expects it will be unable to utilize.

Management 1972

President	D. R. De Laporte, Toronto
Mine Manager	P. L. Munro, Tasu, Queen Charlotte Islands, B.C.

WESTERN PLATINUM LIMITED

Production levels of approximately 100,000 metric tons per month were reached by the latter part of the year. Loss of available working face due to geological disturbances was higher than anticipated, and it was necessary to increase the rate of development to provide additional working faces.

Plant operation and metallurgical recoveries improved steadily. Some modifications of grinding and flotation circuits are being studied with the expectation of improving the concentrate grade.

Copper-nickel matte shipments from the mine to the Falconbridge Norwegian refinery commenced in January 1972.

Capitalization	As at September 30, 1972 Outstanding	Held by Falconbridge	
Ordinary shares	10,000,000	2,500,001	25%
Long Term Debt			
Promissory notes — 9½%	R22,450,000	R5,613,000	25%

Management 1972

Joint Managing Directors	S. C. Newman, Johannesburg
	A. E. Pugsley, Johannesburg

Offices	Corporate Offices — P.O. Box 40, Commerce Court West, Toronto, Ontario, Canada M5L 1B4 Telephone (416) 863-7000. Telex 02-2720. Cables "Falconbrij" Sudbury Operations, Main Office — Falconbridge, Ontario Vancouver Office — 1112 West Pender Street, Vancouver 1, B.C.
Among Wholly-Owned Subsidiaries	**Falconbridge Nikkelverk Aktieselskap,** Kristiansand S., Norway Chairman of the Board and Managing Director — R. Jahnsen **Falconbridge International Limited** P.O. Box 40, Commerce Court West, Toronto, Ontario, Canada M5L 1B4 Telephone (416) 863-7300. Telex 02-2720. Cables "Falconbrij" President and Managing Director — W. G. Dahl **Fahralloy Canada Limited** — Orillia, Ontario Chairman of the Board — T. G. Beament President and Managing Director — J. A. Wilson **Wesfrob Mines Limited** — 1112 West Pender Street, Vancouver 1, B.C. Vice-President — W. J. Tough, Vancouver Mine Manager — P. L. Munro, Tasu, Queen Charlotte Islands, B.C. **Lakefield Research of Canada Limited** — Lakefield, Ontario Manager — A. G. Scobie
Ontario	**SUDBURY OPERATIONS —** General Manager — G. A. Allen **Producing Mines** — Falconbridge, East, Strathcona, Hardy-Boundary, Fecunis Lake, Onaping, North, Longvack South **Mine Under Development** — Lockerby (underground development only) **Concentrators** — Falconbridge, Strathcona, Fecunis Lake **Smelter** — Falconbridge
Manitoba	**Manibridge Mine and Mill** — Near Wabowden, Manitoba Manager — W. A. Case
Ferronickel Operation	**Falconbridge Dominicana, C. por A.** — Avenida Maximo Gomez No. 30, Santo Domingo, Dominican Republic Vice-President and General Manager — Ian H. Keith Entered the ranks as a commercial producer of ferronickel in 1972
Research Laboratories	Falconbridge Metallurgical Laboratories, Richmond Hill, Ontario; Falconbridge, Ontario; Kristiansand S., Norway; Lakefield Research of Canada Limited, Lakefield, Ontario
Exploration Offices	Toronto, Sudbury, Timmins and Thunder Bay, Ontario; Quebec and Noranda, Quebec; Vancouver, B.C.; Winnipeg, Manitoba; Whitehorse, Yukon Territory; Santo Domingo, Dominican Republic; Buenos Aires, Argentina; Oslo, Norway; Sydney and Perth, Australia; Johannesburg, South Africa; Windhoek, South West Africa; Kinshasa, Zaïre
Products	Products of Falconbridge Nickel Mines Limited and affiliated companies include: Nickel, copper, cobalt, gold, silver, platinum, palladium, iridium, rhodium, ruthenium, selenium, lead, iron ore, zinc, cadmium, nepheline syenite, silica, limestone aggregates, liquid sulphur dioxide, oil, natural gas, carbon and high-alloy steel castings, and other products for consumer and industrial use
Solicitors	**Tilley, Carson & Findlay,** Toronto
Auditors	**Clarkson, Gordon & Co.,** Toronto
Transfer Agents and Registrars	**Crown Trust Company,** Toronto, Montreal, Vancouver and Calgary **Registrar and Transfer Company,** New York and Jersey City, U.S.A.

FALCONBRIDGE

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